Mastercard response to the Committee on Payments and Market Infrastructures' interim report to the G20 on the linking of fast payment systems across borders: considerations for governance and oversight

Mastercard welcomes the opportunity to share our views with the Committee on Payments and Market Infrastructures (CPMI) regarding its consultation on the interim report to the G20 on governance and oversight considerations for the linking of fast payment systems across borders. We applaud the CPMI's role in driving forward the G20 Roadmap process, and its careful deliberation of the governance and oversight frameworks necessary to promote the scalability and long-term viability of these cross-border payment arrangements.

We view the linking of fast payment systems as an important step forward towards achieving the G20 Roadmap's goals in the areas of cost, speed, access, and transparency. Mastercard has domestic real-time payments (RTP) deployments in 13 markets around the world. Drawing on this experience, we are considering how our technology and knowledge in scheme management could help enable multilateral, cross-border RTP links. As such, we have a vested interest in ensuring the governance and oversight arrangements of linked systems: balance and mitigate relevant risks; promote innovation; and preserve neutrality - not only for governance and oversight, but also day-to-day management and operations.

We responded to questions 2, 3, 6, 7, 8, 10, 12, 14, and 15 raised by the CPMI in the interim report. In summary:

- Neutral governance and oversight frameworks – for the activities and responsibilities of the linked system's owner, operator, and overseer – are essential for the resilience and long-term viability of the linked system. Owners, whether from the public or private sector, must be able to set aside competing interests, avoid or mitigate conflicts of interest, and manage potential external pressures to objectively make decisions in the best interest of the linked system and its users. Governance and oversight frameworks should empower operators to maintain neutrality in the approach to day-to-day management of the linked system's operations. Specific to oversight, should a cooperative oversight arrangement be established, the selection of chair for the arrangement should not succumb to geopolitical or domestic pressures that may impede neutral oversight of the system.

- Greater consideration of the governance and oversight frameworks required for different owner/operator models is suggested for the report. The scheme owner and operator could be the same entity, or they could be separate entities (e.g., when a central bank owns the linked system, but operations are run by a private sector third-party). For any scenario, the governance framework should consider a delineation of responsibilities, accountability, decision-making authority, and information flow. However, the rules for each scenario may differ depending on the owner/operator construct. Additionally, conflicts of interest may arise if central banks take on the owner and/or operator role in addition to their traditional oversight responsibilities.

- Public sector drivers – such as strategic and economic policy priorities – are not the only factors that dictate the design of a linked system. Consideration of market and other external drivers (e.g., business efficiencies, improvements to technical interoperability, regulatory pressure, user demand, etc.) should be considered in the development of governance and oversight considerations.

Questions

2. Do you think that some specific features of governance should be prioritised and if so, which ones? What would be the basic/simple requirements for a resilient governance arrangement to be adopted by an interlinking arrangement?

The principles (or features) of neutrality and inclusiveness should be prioritized to help ensure the resilience of governance arrangements and to promote the long-term viability of linked systems. Specific to neutrality, different operating and oversight models may place different stressors on the neutrality of the system. For example, conflicts of interest may arise in models where central banks are both the owners and overseers. Careful consideration should be given as to whether the same central bank, as owner, can make objective decisions in the best interest of the linked system and its users, while also effectively carrying out its oversight duties. Additionally, governance arrangements must empower the operator of any linked system to take a neutral approach in its day-to-day management of the linked system's operations.

Relating to inclusiveness, the views of relevant stakeholders (e.g., the linked faster payment systems (FPSs)) should be represented in the governance arrangements of the linked system. Decisions made at the linked system level will often have knock-on implications for participants (i.e., FPSs) and users, including but not limited to changes in processes/protocols, investments in infrastructure/technology/staff, and pricing/fees. Representation of stakeholders in the linked system's governance arrangements can be achieved via: seat allocation on the linked system's Board; participation in a business advisory and/or operations Board committee; and member notices with response periods for major changes under consideration.

3. Can existing governance or oversight frameworks and/or arrangements be leveraged for FPS interlinking? Do you think that different FPS interlinking models should be subject to different governance or oversight frameworks? Please explain.

Existing governance and oversight frameworks and/or arrangements could potentially be leveraged for FPS interlinking, but in many cases it is likely new, tailored, and different frameworks/arrangements may be needed due to varying ownership structures and the division of owner and operator responsibilities.

Different linked arrangements may have different ownership models. Such models include, but are not limited to: entirely private sector-owned structures (e.g., comprised of linked system participants such as FPSs, banks, FX providers, the scheme operator); entirely public sector-owned (e.g., by central bank(s), which may also fund the system's build/run); and/or a combination of public and private sector ownership. For example, the governance and oversight arrangements for a system that is entirely owned by the public sector may need to be different than a system that is owned by the private sector (e.g., as conflicts of interest between central bank owners and overseers may arise in the former scenario).

Further, there may be models where the scheme owner and operator of the linked system are the same entity, and other models where the owner and operator are separate entities. In both scenarios, there should be clear rules outlining the responsibilities of the owner and operator in decision-making, accountability, and information flow – however, the rules in each scenario may vary depending on the owner/operator construct. For example, an entity that serves as both owner and operator may have different decision-making authority (e.g., for dispute resolution, customer onboarding) than an entity that acts solely as the operator (charged with day-to-day management).

6. Consideration 1. To what extent is the alignment regarding strategic and economic policy priorities among the involved jurisdictions a pre-condition for the design of an interlinking arrangement's governance?

Strategic and economic policy priorities among the involved jurisdictions are a helpful pre-condition for the design of an interlinking arrangement's governance, but they are not the only factors. Of note, there may be business and technical drivers, regulatory pressure, and/or market demand (such as faster, cheaper, and safer cross-border payments) that encourage the creation of a linked system. For example, the resulting governance arrangement of a linked system created by the private sector in response to market demand may be different than one formed by the public sector in response to strategic and economic policy priorities. The owners of a private sector-sponsored solution could be participants of the system (e.g., FPSs, banks, FX providers, etc.), and as a result the Board of such a linked system may be different than that of a public sector-sponsored solution (where central banks may desire a seat on the Board).

7. Consideration 2. What is the best way to identify and define a shared long-term vision in terms of objectives and guiding principles (inclusivity, neutrality, agility etc) of an FPS interlinking arrangement?

In general, we agree that a common long-term vision for objectives and guiding principles are an important starting point for effective interlinking arrangements. In addition to the three guiding principles noted (i.e., inclusivity, neutrality, and agility), certain interlinking models may require additional principles. For example, models owned by the public sector (which may operate as a not-for-profit) may need to have a principle on incentivizing private sector participation to promote adoption, encourage innovation, and ensure long-term viability of the linked system. Not-for-profit models may generate commercial risk for private sector participants of the linked system, as there may not be as many opportunities to recuperate build and run cost as in for-profit models. As a result, private sector participants may require incentives to participate in the linked system.

8. Consideration 3. Do you agree that two key design choices in the governance of an FPS interlinking arrangement are the ownership structure and the applicable legal framework? Are there others?

In addition to the design choices of ownership structure and applicable legal framework for the governance of an FPS interlinking arrangement, a third important design choice is determining whether the linked system's owner is the same or separate entity from the operator. These different owner/operator relationships may require different forms of governance to ensure timely flow of information (e.g., between the owner and the operator, to the Board, to supervisors and overseers, etc.) and a clear delineation of authority for decision-making. Importantly, if an operator is a separate entity from the owner, the operator must feel empowered to make critical and timely decisions to support the effective functioning of day-to-day management and operation of the linked system. If the governance is designed where all decisions require owner approval, this may result in a delay of time-sensitive payments to the end-user and potential unnecessary risk to the broader system.

Another important design consideration, relating to applicable legal framework, is the choice of location (i.e., jurisdiction) for the legal entity of the linked system. This decision may dictate factors that influence the neutrality and viability of a linked system, including but not limited to: 1) the central bank serving as the home supervisory authority; 2) in some cases, choice of legal form and ownership structure (e.g., should a jurisdiction have specified governance requirements for Boards); and 3) the chair of any cooperative oversight arrangement.

10. Consideration 5. What are the most important ways in which the governance can help make the FPS interlinking arrangement commercially viable/sustainable?

In addition to the points outlined in our response to questions 2 (i.e., prioritizing the principle of neutrality (for owner, operator, and overseer)) and 7 (i.e., incentivizing private sector participation to promote adoption, encourage innovation, and ensure long-term viability of the linked system), governance can also make the FPS interlinking arrangement commercially viable/sustainable by ensuring expansion of the linked system does not hamper private sector competition or investment. Fair pricing, particularly for systems that are funded (in part or in full) by the public sector, is essential to enable competition in the market.

Additionally, the use of linked systems should be a choice for market participants. Forced participation may divest time, money, and staff time away from market-generated financial innovation and/or more competitive service offerings.

12. Consideration 7. What are the most relevant factors to assess the risk profile of such an arrangement (eg type of services, number of jurisdictions, technical complexity)? How can the oversight framework be designed in order to offer sufficient flexibility, avoiding a one-size-fits all approach?

Specific to the second sub-question, proportionality in the application of the oversight framework is essential to ensure sufficient flexibility and to avoid a one-size-fits-all approach. The degree of risk and complexity of activities, as well as level of volumes and values, should result in a risk-based, proportionate approach to the oversight of linked systems. Flexibility in oversight can be achieved via: 1) re-evaluating the risk profile and adjusting oversight as required; 2) establishing cooperative oversight arrangements that are informal when risks/complexities/volumes/values are low, but mature to more formal arrangements such as memorandum of understanding (or "MOUs") or protocols should risks/complexities/volumes/values increase over time; and 3) maintaining an open dialogue between overseers and the linked system on emerging risks and operational trends.

14. Consideration 9. How can cooperation among overseers be implemented? How can it vary by form, degree of formalisation and intensity?

In addition to the points outlined in our response to question 12 (i.e., cooperation amongst overseers should evolve as the risks/complexities/volumes/values change over time), we would also suggest that any form of cooperative oversight is limited to the activities of the linked system (i.e., the shared technical platform and risks specific to the link). Activities outside of the linked system should be out of scope for cooperation, and thereby relevant to domestic overseers only. Without limiting the scope of cooperative oversight, a situation may result where there are oversight expectations on domestic operators beyond what is required by the domestic overseer.

As highlighted in our response to question 2, neutrality is also essential in cooperative oversight arrangements. Should a linked arrangement establish a cooperative oversight committee with relevant central bank overseers, the chair of the committee may have significant influence in dictating the oversight program and potentially the overall strategic direction of the linked system. Ideally, the decisions made by the central bank serving as chair should not succumb to political pressure or geopolitical tensions over time. This point emphasizes the importance of choice of jurisdiction for the legal entity of the linked system, as the home supervisor and (likely) chair of the oversight committee may be the same jurisdiction as the legal entity.

15. Consideration 10. Do you see any challenges if overseers are being involved during the design and implementation phase of an arrangement's governance? If so, which ones?

Overseer involvement in the design and implementation phase of an arrangement's governance may introduce a conflict of interest for the overseer of the linked arrangement. The overseer may need to carefully balance the creation of a governance framework that enables innovation, growth, and viability of the linked system against the effective implementation of an oversight framework seeking to mitigate systemic risk and ensure the effective functioning of the linked system. Further, and importantly, the management and Board must be empowered to create and implement a governance framework that best corresponds with the activities, risks, and legal framework (amongst other issues) of the linked system. Should overseers be involved in the creation of an arrangement's governance, this may introduce indistinct lines of responsibility between the linked system's management/Board and the public sector.